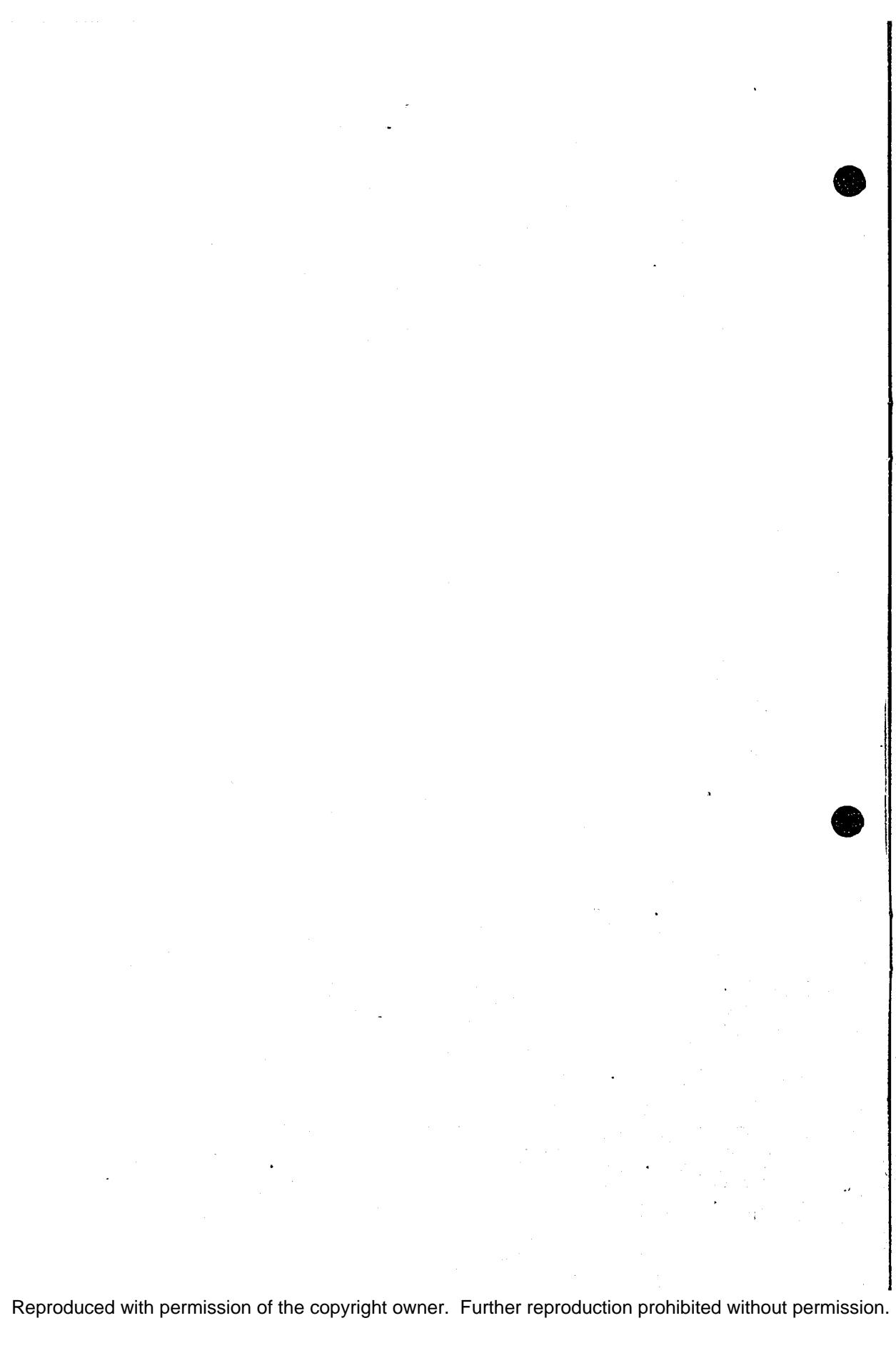


ANNUAL REPORT

December 31, 1944

J. C. PENNEY COMPANY
(A DELAWARE CORPORATION)

OPERATING 1608 RETAIL STORES



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TO THE STOCKHOLDERS OF J. C. PENNEY COMPANY

March 21st, 1945

In this report the December 31, 1944, Balance Sheet, and supporting statements for J. C. Penney Company and its wholly owned subsidiaries, are submitted to you.

S A L E S

In 1944 the Company's sales passed the half billion mark for the first time in our history. The actual sales figures were \$535,362,894.30, as compared with \$489,888,090.69, for the preceding year. This was a gain of \$45,474,803.61, or 9.28%.

The number of stores in operation at the year end was 1608—two less than the year before. The gain in sales was, of course, in part, a reflection of the war-time buying power of American consumers. Throughout the year the Company's merchandise department and store managers were confronted with a shortage of staple textile products that was even worse than in the preceding war years. However, their continual effort and increased emphasis on style lines, supported by the remarkable productive capacity of American manufacturers, made it possible to reach the sales figure attained.

FINANCIAL STATEMENTS

Cash on hand and in banks December 31st and Government Securities totaled \$88,957,083.78. This cash position evidences the strength of the Company and its favorable position for growth when merchandise availability and the elimination of war-time restrictions make this possible.

PROFITS & TAXES

Net profits for 1944 amounted to \$17,159,357.17, equal to \$6.25 per share on each of the 2,743,984 shares of common stock outstanding. For 1943 the corresponding figures were \$17,890,772.38, or \$6.52 per share.

This difference in profit is due directly to higher tax rates. Earnings of the Company for 1944, before Federal Taxes on income, exclusive of the two wholly owned subsidiaries, were \$56,782,304.78. For 1943 this figure was \$51,739,733.03. For 1944, Federal Taxes on income, were approximately \$39,825,000.00, or about \$14.50 per share. For 1943 the figures were \$34,080,000.00, or about \$12.50 per share.

No individual or corporation would question the need and justification for high tax rates to support our present National war effort. It may be of interest, however, to note that in 1934, ten years ago, the sales of the Company were \$212,053,361.46; the net profit figure was \$15,527,737.39, and the total amount of Federal Taxes on income was \$2,550,814.84. In other words, the final net profit for 1944 has been increased by a very small percentage over 1934, but sales have been increased over 2½ times, and profits before Federal Taxes on income have been increased more than three times, and such Federal taxes have been multiplied about sixteen times.

MERCHANDISE INVENTORY

The merchandise inventory at December 31, 1944, was \$69,104,461.13 compared with \$79,061,099.96 at the end of 1943. This figure is low in relation to sales volume, but is attributable both to the scarcity or non-existence of much staple merchandise and to the type of quick-turnover (and hence low inventory), merchandise available under present conditions.

D I V I D E N D S

Dividends amounting to \$5.00 were paid in 1944, including four quarterly dividends of 75¢ each and a year-end extra of \$2.00. Such dividends were amply justified by the earnings record and the Company's financial position.

W A R - T I M E M E R C H A N D I S I N G

In last year's report a rather extensive reference was made to the participation of Penney managers and Penney personnel generally in the war effort. During 1944 this group was again most active in War Bond Sales, and in many other types of community effort. Numerous newspaper articles and letters have been received, commending this local community leadership.

As the war has lengthened, it has brought with it added complications and difficulties for retailers, as it has for all individuals and all types of business. Our Company has felt this impact particularly in three major phases—a shortage of personnel, a scarcity of merchandise, and a multiplicity of government regulations and restrictions.

The end of 1944 had seen 5,529 Penney associates enter the armed forces, including 97 store managers, and 390 from the central offices. Since this number included the great majority of Penney men in training, the rest of the Company associates were called upon to assume added responsibilities and new duties. The Company has been able to maintain its operation because of the loyalty of this group and because of a long-time record of excellent personnel relations. The value of paid vacations, of liberal sick-benefit provisions, of a free death-benefit provision, and of a thrift and profit-sharing plan, has strongly proved itself in holding experienced associates and in attracting new ones.

Merchandise, as stated before, has become increasingly scarce, particularly because of our effort to stick to Penney quality and value. The needs of the armed forces have come first, and rightly so. Because much of the merchandise required by our own armed forces and those of our allies is similar in type and is produced in the same factories that formerly supplied the Penney Company, our Company has been

particularly affected by the service requirements. At the present time, there is no evidence of an early easing in this condition. In spite of this situation, the gain in sales volume for 1944, of 45 million dollars, is an excellent omen for the period ahead.

Governmental regulation and restrictions added tremendously to the detailed work involved in the operation of a retail store in 1944. Rationing, OPA price controls, WPB regulations, and wage stabilization all entail continuous time and expense for the conscientious operator. Our Company has accepted these as a necessary part of the war effort, but with the earnest hope that all such controls will be eliminated at the earliest possible moment consistent with the National welfare. They represent a cost of doing business that, in more normal times, might well be disastrous both to industry and to the consumer's pocketbook.

U N F I N I S H E D B U S I N E S S

In the Penney Company we are looking to the future in terms of "unfinished business," rather than of "Post-War Planning." Because of the nature of our business, we do not face a drastic reconversion period, any more than we have to weigh the impact of re-negotiation of contracts.

Since its beginning in 1902, this Company has operated a business on the basis of certain fundamental principles and policies and with rather clearly defined objectives. It is a retail business, selling through stores. It is a business which emphasizes the value of the human element—so important in retailing. Its market includes the great bulk of American families—those who, regardless of general conditions, want good quality and substantial value at a saving. The stores are junior department stores, varied in size, but primarily supplying the things people wear and house furnishings. Within these general classifications, experience has shown that there is room for the unlimited expansion of existing lines of merchandise and for the addition of supplemental lines of merchandise, adapted to selling in the Penney type of stores and in the Penney way.

In the post-war era, therefore, we are not thinking in terms of radical departures or violent changes in our program. We anticipate increased and keener competition for the consumer's dollar. We believe it is our task, as a Company, to meet that chal-

lenge by profiting from our experience and doing, in a better and bigger way, the same type of job that we have endeavored to do for 42 years. It is a job that has never been completed and to which we can see no end—a job of unlimited possibilities and much "unfinished business."

P E N N E Y A S S O C I A T E S

I cannot close this letter without another reference to the personnel of this Company and to their continued loyalty and efforts. Among our boys and girls in the service 78 have made the supreme sacrifice. No words of mine can adequately pay tribute to them. Hundreds of others have won promotions or hold commissions, or have been awarded honors that were richly deserved. All have acquitted themselves well.

Among the associates who have not found a place in the armed services there has been a comparable spirit of performance and of devotion to duty. I feel that I speak for you, my fellow-stockholders, as well as to you, when I express the deepest appreciation of what these associates have done during these exacting days of 1944. They, like us, are looking ahead to the time when, under peace-time conditions, and with the return of those now in the fighting forces, we shall do a better job of serving the American consumer.



The Annual Meeting of Stockholders will be held on April 20th, 1945. A proxy statement, with a request for proxies, will be mailed to stockholders on or about March 28th.

J. C. Penney Company
(A Delaware Corporation)

B A L A N C E S H E E T

As of December 31, 1944

A S S E T S

CURRENT ASSETS:

Cash in banks and on hand.....	\$ 73,669,983.78
U. S. Government securities—at cost (principally Series C tax notes).....	15,287,100.00
Accounts receivable—Trade and miscellaneous.....	920,526.46
Merchandise (Note 1)	69,104,461.13
Total Current Assets.....	<u>158,982,071.37</u>

**Investments in and Advances to Subsidiary Companies
(including undistributed surplus)—at amounts as
shown by Subsidiaries' Balance Sheets:**

Advances	\$3,620,000.00
Capital stock and surplus.....	<u>1,670,471.80</u>

Mortgages Receivable	31,735.24
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Post-war Excess Profits Tax Credit (including re- fund bonds)—estimated	9,492,351.65
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**Fixed Assets, at not in excess of cost, less provision
for depreciation:**

Land	1,858,636.44
Buildings	\$2,269,232.81
Less Reserve for depreciation..	<u>560,144.03</u>

1,709,088.78

3,567,725.22

Furniture and fixtures, less provision for depreciation.....	9,213,764.92
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Improvements to leaseholds, less amortization	<u>1,271,593.16</u>
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14,053,083.30

Deferred Charges—Unexpired Insurance Premiums, Rent Advances, etc.	691,563.71
	<u>\$188,541,277.07</u>

Note: (1) Inventories are stated at the lower of cost or market determined as follows:
Merchandise in stores—lower of cost or market determined by the retail method. Stocks in warehouses
and with manufacturers, including raw materials shipped to manufacturers—cost determined by the
first-in first-out method and market on the basis of replacement cost.

J. C. Penney Company
(A Delaware Corporation)

B A L A N C E S H E E T

As of December 31, 1944

L I A B I L I T I E S

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 43,797,912.08
Provision for Federal taxes on income	<u>43,334,112.92</u>
Total Current Liabilities	87,132,025.00

Reserve for Fire Losses, Etc., and Employees' Death Benefits	2,825,000.43
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Common Stock, no par value:

Authorized, 3,000,000 shares.	
Outstanding, 2,743,984 shares	33,822,766.67

Surplus (Earned):

J. C. Penney Company	\$63,141,013.17
Undistributed surplus of subsidiaries	<u>1,620,471.80</u>
	64,761,484.97

\$188,541,277.07

Note: (2) An agreed settlement of a stockholder's action against directors and officers of the Company, the Administrative Committee and the Trustee of the J. C. Penney Company Profit-Sharing Retirement Fund (for its Management Staff) under which agreement, subject to its approval by the Court, an amount of \$300,000 is to be paid by the Trustee to the Company as additional payment for 200,000 shares of capital stock of the Company sold to the Trustee in 1940, has not been reflected in the foregoing balance sheet; nor has provision been made for the related legal expenses.

J. C. Penney Company

PROFIT AND LOSS ACCOUNT

For the Year Ended December 31, 1944

(Including Profits of Subsidiaries)

Sales	\$535,362,894.30
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	\$468,683,682.94
Maintenance and Repairs.....	1,193,806.63
Depreciation and Amortization.....	1,540,987.59
Taxes, other than Taxes on Income.....	4,622,551.42
Company Contributions to Retirement Plans.....	<u>3,159,879.64</u>
	<u>479,200,908.22</u>
	<u>56,161,986.08</u>
Discount on Purchases, Interest Received and Miscellaneous Income (Net)	<u>1,220,318.70</u>
Profit before Provision for Taxes on Income.....	<u>57,382,304.78</u>
Provision for Taxes on Income:	
Federal normal income tax and surtax.....	8,235,000.00
Federal excess profits tax (less post-war credit of \$3,510,000.00)	<u>31,590,000.00</u>
Other income taxes.....	<u>600,000.00</u>
	<u>40,425,000.00</u>
Add 1944 Profits of Subsidiaries.....	<u>16,957,304.78</u>
Transferred to Surplus.....	<u>202,052.39</u>
	<u><u>\$ 17,159,357.17</u></u>

Note:

Common stock outstanding at end of year.....	Shares <u>2,743,984</u>
Earnings per share of common stock, as above.....	<u>\$6.25</u>

EARNED SURPLUS ACCOUNT

Surplus at December 31, 1943.....	\$61,322,047.80
Net Income for 1944.....	<u>17,159,357.17</u>
	<u>78,481,404.97</u>
Cash Dividends on Common Stock.....	<u>13,719,920.00</u>
Surplus at December 31, 1944.....	<u><u>\$64,761,484.97</u></u>

ACCOUNTANTS' REPORT

To the Board of Directors,
J. C. Penney Company,
New York, N. Y.

We have examined the balance sheet of the J. C. Penney Company as of December 31, 1944 and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of the J. C. Penney Company at December 31, 1944 and the results of the operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
March 21, 1945.

FROM OUR WAR-TIME MAIL BAG...

Somewhere in France

"The pride of Penney associates in the Company is nothing new, but I never realized before I went into the Army how generally our enthusiasm for Penney's is shared by the American people. Countless soldiers have asked me, in the course of casual conversation, 'What did you do in civilian life?' When I tell them I worked for Penney's, almost invariably it is as though we had a friend in common. It might be a former customer, or someone with a friend or a relative in the Company, or someone in a firm from which we bought merchandise. And always they have something good to say about us and our merchandise."

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Somewhere in Germany

"Received your kind letter. I can honestly say that I was greatly surprised at the sales for the year 1944. It seems that "our" Penney's has come through in the face of all odds. I say "our" because I feel that I am a part of it through my many letters and contacts with those who are left at home. Believe me, we are grateful for all the backing they have given us in the past and are continuing to give us. Let me at this time express the gratitude of the boys both over here and in the states. It makes me feel proud to know that I am a part of an organization that does so many things for its boys, and I am anxiously awaiting the day when I can return to the ranks of an associate in civilian clothes."

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Camp Lejeune, N. C.

"My heart is full of pride when I pick up a paper from California, Maine, Florida or Pennsylvania (or wherever my Army assignment takes me) and find a J. C. Penney advertisement. It really gives me something to look forward to. Knowing that my former associates are doing a bang-up job, I just can't wait for the day when I will be right alongside of them."

* * *

A. P. O.
San Francisco, Calif.

"I have just received your letter with an outline of Penney plans for the post-war era. I have seen a great deal of action since the date of your letter, most recently participating in the invasion of the Philippines. Despite our immediate problems, there is scarcely a man who has not given thought to what will happen to him on his return. It is mighty comforting to know I have been included in the plans of an institution like Penney's. In the face of danger, I have often applied Rickenbacker's philosophy: "I cannot die, there is too much work to be done."

* * *

Santa Monica, California

"I can't help but feel how fortunate I am to have been accepted by an organization of such fine people as the Penney Company. At this time, more than ever, one wonders what the future will be for him. We former associates of the J. C. Penney Company, now in Service, know that our future is secure—we know that our jobs are waiting for us, and we are coming back with the determination to make them secure. Until then, our hearts are with you and we hope to see you soon."

FROM OUR WAR-TIME MAIL BAG...

★ Our wartime mail is hopeful and ambitious, and it is a heartening thing to ★
be on the receiving end. The excerpts reproduced on these pages, are typical ★
in every respect. We are proud of them—and of the writers. The attitude ★
they reveal is a sure guarantee of the future of the J. C. Penney Company. ★
★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

Western Front

"Since I am already barging in on your time, may I offer a thought or two from an unpredictable Western Front to the good old reliable Penney Front? Please stop any of the good store managers you happen to run into from the assumption that they are doing nothing while the boys over here are doing everything. I hear from Penney men quite often, and having assisted in the running of a Penney store the first year of the war, I can realize what trials and tribulations confront a conscientious Penney merchant these days. All of your top-notch war bond vendors also have my admiration and congratulations. The American G.I. is a pretty good soldier in any man's league but I have a faint suspicion that he would not be so effective without the grand equipment that keeps rolling in over here."

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Efecto P. O.

San Francisco, Calif.

"I look forward each day to letters from my store or district manager, and the home office. You folks at home, and especially the women, are doing a marvelous job in keeping the Penney Company on top. It will be the happiest day of my life when we come marching home and take our places behind the counters of the good old Penney Company. I want to take this opportunity to express my appreciation for the fair play shown me by the Penney Company and for the quarterly checks I have been receiving while in the Service. I think the Profit-Sharing plan is one of the best things the Company has ever done. I am proud to be a cog in the wheel of such an organization."

— 1 —

Seattle, Washington

"A few days ago I received your very welcome letter and I am truly grateful to the Company for the check and the savings you are building up for me. For the past two years I have been stationed at this Army Service Depot as a storage officer. I have spent about equal time in charge of clothing and equipage, general supplies and subsistence. I don't believe the army has any job that J. C. Penney Company training would fit one for any better than a depot storage officer's work. I feel that I am gaining valuable training which will make me a much better Penney man. Since I have been in the Service I have had several occasions to travel across the country, both east and south, and I always look up the Penney stores to see how things are going."

— 3 —

New Guinea

"Your letter of last month was forwarded to me recently. The question most often asked out here is: "What kind of a world will we go back to and what kind of a future have we the right to expect?" Many of the men in service have no idea what they will do when hostilities cease. That's why letters such as yours are gratifying to me and to all our associates in uniform. The knowledge that we will return to a Company in a position to function for the benefit of all concerned, in the brighter years ahead, results in a lift over the rough spots during this time. In an effort to keep in touch and to recapture in part the feeling of my own job, I occasionally spend an evening making out an expense budget, or working up an advertising budget or outlining a program for a store meeting."

Year-by-Year Sales Figures

1902-1944

<i>Year</i>	<i>No. of Stores</i>	<i>Gross Business</i>	<i>Year</i>	<i>No. of Stores</i>	<i>Gross Business</i>
1902	1	\$ 28,898.11	1924	569	74,261,343.00
1903	1	63,522.95	1925	674	91,062,616.17
1904	2	94,165.49	1926	747	115,683,023.37
1905	2	97,653.54	1927	892	151,957,865.20
1906	2	127,128.36	1928	1,023	176,698,989.14
1907	2	166,313.82	1929	1,395	209,690,417.77
1908	4	218,432.35	1930	1,452	192,943,765.42
1909	6	310,062.16	1931	1,459	173,705,094.52
1910	14	662,331.16	1932	1,473	155,271,981.19
1911	22	1,183,279.96	1933	1,466	178,773,965.06
1912	34	2,050,641.99	1934	1,474	212,053,361.46
1913	48	2,637,293.72	1935	1,481	225,936,100.88
1914	71	3,560,293.75	1936	1,496	258,322,479.00
1915	86	4,825,072.19	1937	1,523	275,375,137.32
1916	127	8,428,144.34	1938	1,539	257,963,945.53
1917	177	14,881,203.14	1939	1,554	282,133,933.64
1918	197	21,338,103.60	1940	1,586	304,539,325.64
1919	197	28,783,965.42	1941	1,605	377,571,710.99
1920	312	42,846,008.53	1942	1,611	490,295,173.10
1921	313	46,641,928.20	1943	1,610	489,888,090.69
1922	371	49,035,729.06	1944	1,608	535,362,894.30
1923	475	62,188,978.73			

STORES BY STATES, Dec. 31, 1944

Alabama	12	Iowa	68	Nebraska	53	South Carolina	13
Arizona	18	Kansas	77	Nevada	9	South Dakota	27
Arkansas	18	Kentucky	22	New Hampshire	3	Tennessee	21
California	138	Louisiana	11	New Jersey	4	Texas	118
Colorado	49	Maine	9	New Mexico	17	Utah	30
Connecticut	6	Maryland	5	New York	33	Vermont	5
Delaware	2	Massachusetts	10	North Carolina	31	Virginia	13
Florida	19	Michigan	52	North Dakota	33	Washington	62
Georgia	17	Minnesota	63	Ohio	61	West Virginia	12
Idaho	35	Mississippi	19	Oklahoma	49	Wisconsin	54
Illinois	49	Missouri	49	Oregon	42	Wyoming	22
Indiana	52	Montana	37	Pennsylvania	58	Total Stores....	1608

J. C. PENNEY COMPANY
A DELAWARE CORPORATION

OFFICERS

J. C. PENNEY
Chairman of the Board

E. C. SAMS
President

J. I. H. HERBERT
3rd Vice-President and Treasurer

A. W. HUGHES
Executive Vice-President

A. J. RASKOPF
Secretary

W. A. REYNOLDS
2nd Vice-President

R. W. TROWN
Comptroller

DIRECTORS

J. C. PENNEY, Chairman

E. C. SAMS

G. H. CROCKER

J. I. H. HERBERT

W. A. REYNOLDS

GEO. H. BUSHNELL

EARL A. ROSS

L. W. HYER

A. W. HUGHES

LEW V. DAY

F. W. BINZEN